

MEMORANDUM FOR:

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Date

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ECONOMIC FORCES FOR CHANGE IN THE THIRD WORLD

1. There is good reason to believe that in Third World countries the socialist model is increasingly being perceived as having failed to generate real economic growth. There appears to be a shift from the ideologically-inspired policies of the post-colonial era to much more practical approaches.

2. Changing circumstances:

- Tough economic times. Two oil price hikes, two recessions, and higher interest rates and debt.
- Failure of LDC Development Policies. The emphasis on parastatals, central planning, reduced incentives for the farmer, etc., has not worked.
- Recognition by many LDCs that they have less collective global economic power than they perceived in the 1970s.
- Dimmed prospects for sizeable new amounts of foreign assistance. Aid increasingly going for security assistance, humanitarian purposes, and debt repayment.
- Reduced LDC expectations that the Soviets can provide an economic alternative. Such countries as Cuba have provided a dismal example of economic progress under Moscow's tutelage. In addition, Communist countries provide only meager amount of economic aid, and have been unable to provide major alternative markets for LDC goods.
- Continuing economic advances of many Far East LDCs demonstrate that effective domestic policies can overcome adverse external economic circumstances.

3. The willingness of LDC governments to contemplate and experiment with market-oriented approaches is strengthening. Within constraints such as the need to maintain central government political control, the private sector is being increasingly allowed to operate independently. Many examples, but the PRC may be the most significant.

4. This changing climate presents significant economic opportunities for the US to strengthen its links with LDCs based upon a growing mutuality of economic interest.

- The environment is ripe for increased promotion and development of small-scale enterprises within LDCs, the acceptance of or adaptation to new technologies, enlarging the flow of foreign direct investment, and helping state enterprises to become more efficient and find ways to relinquish some functions to the private sector.

5. These forces have security implications:

- They should strengthen the West's position in relation to that of the Soviet Union in LDCs.
- Soviet domestic economic and foreign financial constraints over the next ten years will make Moscow even less able to compete in non-military sectors.
- US security interests will often coincide with opportunities for economic support, and security assistance can reinforce the willingness of an LDC to make a change.

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